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NOTE: FYI. A NEW GRAPHIC PRESENTATION, BIG SIX COMPOSITE INDICATORS, HAS BEEN ADDED TO THE ECONOMIC INDICATORS WEEKLY REVIEW. THE INDICATORS ARE INDUSTRIAL PRODUCTION, CONSUMER PRICE INFLATION, UNEMPLOYMENT RATE, AND TRADE BALANCE.

25X1A ONE ARTICLE FROM DER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW ENDING 16 FEBRUARY 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR, DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

CURRENT SURVEY.

25X6 MAJOR RECENT DEVELOPMENTS AFFECTING THE INTERNATIONAL ECONOMY.

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ECONOMIC INDICATORS FOR THE BIG SIX.

6. INDUSTRIAL OUTPUT IN EACH OF THE BIG SIX FOREIGN

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ECONOMIES TURNED UPWARD IN LATE 1977. THE ESTIMATED 6-PERCENT INCREASE (ANNUAL RATE) IN THE SEASONALLY ADJUSTED COMPOSITE INDEX OF INDUSTRIAL OUTPUT OF THE SIX IN THE FOURTH QUARTER AS COMPARED WITH THE THIRD QUARTER REVERSED A TWO-QUARTER DOWNTREND; DECEMBER OUTPUT WAS AN ESTIMATED 3 PERCENT ABOVE THE JULY LOW POINT. WEST GERMANY POSTED A PARTICULARLY STRONG DECEMBER GAIN, PUSHING YEAREND INDUSTRIAL PRODUCTION 3.5 PERCENT ABOVE THE JULY LOW AND NEARLY 1.0 PERCENT ABOVE THE PREVIOUS 1977 HIGH, IN MARCH.

7. DESPITE THE IMPROVED INDUSTRIAL PERFORMANCE, INFLATIONARY PRESSURES IN THE BIG SIX CONTINUED TO WANE IN LATE 1977. FOR THE SIX AS A GROUP, THE INCREASE IN THE COMPOSITE RATE OF CONSUMER PRICE INFLATION IN THE FOURTH QUARTER COMPARED WITH THE PRECEDING THREE MONTHS WAS ESTIMATED TO BE ONLY 5.5 PERCENT AT A SEASONALLY ADJUSTED ANNUAL RATE. IN WEST GERMANY AND JAPAN, CONSUMER PRICE INFLATION FELL TO A RANGE OF 2 TO 3 PERCENT AT A SEASONALLY ADJUSTED ANNUAL RATE. ALTHOUGH THE PACE OF INFLATION IN THE OTHER COUNTRIES REMAINED HIGH--IN THE 8- TO 11-PERCENT RANGE--ALL BUT CANADA SHOWED STEADILY DECLINING INFLATION RATES IN SECOND HALF 1977.

8. JAPAN AND WEST GERMANY CONTINUED TO POST LARGE TRADE SURPLUSES THROUGH YEAREND 1977. THE TRADE POSITIONS OF THE OTHER FOUR COUNTRIES REMAINED ROUGHLY IN BALANCE. (UNCLASSIFIED).

#### GLOBAL CURRENT ACCOUNTS.

9. THE COMBINED CURRENT ACCOUNT DEFICIT OF THE OECD COUNTRIES REACHED \$17 BILLION IN 1977, \$9 BILLION MORE THAN IN 1976. THE TOTAL SURPLUS OF THE BIG SEVEN INDUSTRIAL COUNTRIES DECLINED BY \$5 BILLION--TO \$1.9 BILLION--WITH THE LARGE DETERIORATION IN THE US CURRENT ACCOUNT PARTIALLY OFFSET BY A \$7.5 BILLION RISE IN THE JAPANESE SURPLUS AND BY A TOTAL \$9.5 BILLION IMPROVEMENT IN THE FRENCH, ITALIAN, AND BRITISH CURRENT ACCOUNTS. RELATIVELY SMALL CHANGES OCCURRED IN THE WEST GERMAN SURPLUS AND THE CANADIAN DEFICIT. AMONG THE OTHER OECD COUNTRIES, BELGIUM/LUXEMBOURG AND SPAIN SHOWED NOTABLE IMPROVEMENTS (\$1.3 BILLION EACH) IN THEIR CURRENT BALANCES AND THE NETHERLANDS, NORWAY, SWEDEN, AUSTRIA, AND TURKEY SHOWED MARKED DETERIORATIONS (ROUGHLY \$1 BILLION TO \$2 BILLION EACH).

10. THE CHANGES IN 1977 RESULTED FROM DIFFERING NATIONAL DEMAND MANAGEMENT POLICIES, DIFFERENTIAL INFLATION RATES AND CHANGES IN INTERNATIONAL COMPETITIVENESS, GROWING OIL IMPORTS

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BY THE UNITED STATES, AND SLACKENING IMPORT DEMAND BY OPEC COUNTRIES AND MANY LDCS. THE SURPLUS/DEFICIT PATTERN AMONG THE DEVELOPED COUNTRIES PROBABLY WILL NOT CHANGE SIGNIFICANTLY IN 1978.

11. ELSEWHERE, THE TOTAL CURRENT ACCOUNT DEFICIT OF THE NON-OPEC LDCS DECLINED IN 1977, AS DID THE DEFICIT OF THE COMMUNIST COUNTRIES; THE SURPLUS OF THE OPEC COUNTRIES INCREASED. THESE SAME TRENDS WERE EXHIBITED IN 1976. IN 1975 ALL THESE AGGREGATES MOVED IN OPPOSITE DIRECTIONS. IN 1978 THE OPEC SURPLUS SHOULD SHRINK, LARGELY BECAUSE OF THE FREEZE ON OIL PRICES AND RISING IMPORT PRICES. THE NON-OPEC LDCS SHOULD EXPERIENCE A MODERATE DETERIORATION, PARTLY BECAUSE OF THE DECLINE IN COFFEE, TEA, AND COCOA PRICES. (CONFIDENTIAL).

#### OPEC INVESTMENT.

12. OPEC NATIONS HAVE BEEN TRANSLATING THEIR CONCERN ABOUT THE DOLLAR INTO INVESTMENT DECISIONS. IN THIRD QUARTER 1977, ONLY 25 PERCENT OF OPEC INVESTMENT WENT INTO DOLLAR-DENOMINATED ASSETS, COMPARED WITH THE 75-PERCENT AVERAGE OF THE TWO PREVIOUS YEARS.

13. OVERALL OPEC INVESTMENT IN THE THIRD QUARTER SLOWED NOTICEABLY, REFLECTING RISING IMPORT BILLS AND DECLINING OIL REVENUES. INVESTMENT IN THE UNITED STATES FARED MUCH BETTER THAN DOLLAR-DENOMINATED INVESTMENT ELSEWHERE BECAUSE OPEC COUNTRIES ARE CONTINUING TO EMPHASIZE LONG-TERM ASSET ACQUISITION; THE US CAPITAL MARKET OFFERS THE WIDEST SELECTION IN THIS CATEGORY. (SECRET NOFORN).

#### FREE WORLD OIL SUPPLY AND DEMAND, 1978.

14. CIA PROJECTS FREE WORLD OIL DEMAND IN 1978 AT 52.5 MILLION B/D, A 4.5-PERCENT INCREASE OVER 1977 DEMAND. INCREASES IN NON-OPEC OIL SUPPLIES FROM THE NORTH SEA, MEXICO, AND THE ALASKAN NORTH SLOPE SHOULD SATISFY ALMOST ALL THE GROWTH IN DEMAND. OPEC PRODUCTION PROBABLY WILL INCREASE VERY LITTLE, IF AT ALL.

15. (THE DEMAND PROJECTION ASSUMES: 1978 ECONOMIC GROWTH RATES OF 4.5 PERCENT IN THE UNITED STATES, 3 PERCENT IN WESTERN EUROPE, 5.7 PERCENT IN JAPAN, AND 4.0 PERCENT IN CANADA; NO CHANGE IN OPEC PRICES DURING THE YEAR; AND AN INCREASE OF 500,000 B/D IN THE ACCUMULATION OF STRATEGIC STOCKS, PRIMARILY IN THE UNITED STATES.) (CONFIDENTIAL)

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